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September 13, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.   
Director and Chief Medical Officer

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REPORT ON  
DEPARTMENT OF HEALTH SERVICES' CENTRALIZED  
CONTRACT MONITORING DIVISION**

This is in response to the July 8, 2004 Auditor-Controller's (A-C) report on its follow-up review of the Department of Health Services' (DHS) Centralized Contract Monitoring Division (CCMD). Generally, DHS agrees with each of the A-C's recommendations and is taking steps toward implementing the recommendations.

Further, DHS is participating in the A-C's Countywide consolidated contract monitoring effort. DHS has met with the A-C and is in the process of assessing its contract workload to determine which contract categories are best suited to this effort.

Below are the A-C's recommendations, followed by DHS' response:

**Recommendation 1:**

**DHS administration work with the CAO and the Board to identify and allocate sufficient resources to the CCMD.**

**DHS Response to Recommendation**

We concur.

For Fiscal Year (FY) 2004-05, CCMD received an additional 17 positions which increased the total number of CCMD budgeted positions to 40. While this number

remains less than the 65 positions originally contemplated to fully staff CCMD, DHS is confident that these additional positions, when filled, will make a material difference in CCMD's ability to properly monitor the Department's contracts. Additionally, if DHS determines that there is still an inadequate number of CCMD staff after full staffing at 40 positions, DHS will request additional positions in next year's budget.

**Recommendation 2:**

**DHS management ensure that, at least annually, a survey is conducted and a report prepared to determine the degree of monitoring taking place.**

**DHS Response to Recommendation**

We concur.

The Status of Contract Monitoring Report (SCMR) contains a listing of all contracts, both used and not used, during a County fiscal year. The Audit and Compliance Division (ACD) reviews the listing and, based on DHS criteria, determines which contracts are considered active. It is the responsibility of each facility/program office to monitor each of their active contracts at least once annually during a County fiscal year. ACD prepares an annual report of monitoring efforts, which include elements such as the contracts reviewed, the dates of the monitoring components, and dates of contractor notification. The report also indicates changes in the facility/program office's monitoring achievement from the previous fiscal year.

**Recommendation 3:**

**DHS management ensure that contract monitoring instruments and supporting documentation are reviewed to ensure that contracts are monitored in accordance with DHS standards.**

**DHS Response to Recommendation**

We concur.

ACD continues to review a sample of selected completed monitoring instruments and supporting documentation, which includes contractor notification. ACD continues to be responsible for preparing contract monitoring protocols which indicate Board of Supervisors/Department standards and expectations.

**Recommendation 4:**

**DHS management require that a department-wide list, linking all contracts with the facility/program office responsible for monitoring, is prepared and distributed.**

**DHS Response to Recommendation**

We concur.

DHS' Contract Administration is in the process of developing a Department-wide listing of all contracts and their associated facilities/program offices. This listing will serve as a basic tool not only for contract monitoring activities but also for numerous reports, assistance in negotiating, and responses to administrative, Departmental, County, and outside inquiries. The Department-wide listing of all contracts will be an integral part of the mechanism DHS' Contract Administration is in the process of implementing. (See Response to Recommendation 7).

**Recommendation 5:**

**DHS management minimize the practice of requiring program staff and County Counsel approval before CCMD issues all final reports and require DHS management's approval to make report changes requested by program staff and County Counsel.**

**DHS Response to Recommendation**

We concur.

DHS agrees with the the recommendation, and will to the extent possible, reduce the preapproval process from County Counsel. Previously, County Counsel involvement has been significant for certain contracts, particularly the Private/Public Partnership (PPP) contracts. Because many of the legal issues relating to the PPP monitoring audits were addressed and resolved during FY 2002-03, DHS has greatly minimized the need for obtaining County Counsel approval prior to the issuance of reports for these contracts.

DHS recognizes that the CCMD continues to have the capability of referring impasse issues as they arise to DHS management and other appropriate areas, if necessary. Issuing reports in a timely manner continues to be the Department's goal.

**Recommendation 6:**

**DHS management set a time limit for the receipt of CAPs after which reports will be issued.**

**DHS Response to Recommendation**

We concur.

CCMD has reinstated its policy of allowing contracted Providers 30 days to submit their Corrective Action Plans (CAPs), after which time, reports are issued.

**Recommendation 7:**

**DHS management ensure a formal risk assessment is performed for all contracts and assign resources to monitor those with the greatest risk.**

**DHS Response to Recommendation**

We concur.

CCMD is in the process of improving, formalizing and applying its risk assessment plan to all DHS contracts. Currently, specific risk assessment criteria used by CCMD in determining those contracts with the greatest risk and monitoring need includes an analysis of the contract's: funding source; value; term; service type; reimbursement method; previous audit date; and whether or not the contract is new or pre-existing.

Further, DHS' Contract Administration is in the process of identifying and engaging in informal discussions with a commercial off-the-shelf contract management software vendor to implement a mechanism that will address all the A-C's recommendations as well as incorporate risk assessment criteria in the contract monitoring function.

If you have any questions or need additional information, please let me know.

TLG:ll  
407:009

Attachment

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors